

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20

STR-08 CEA-02 L-03 H-03 PA-04 USIA-15 PRS-01 DRC-01

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R 250955Z JAN 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 9521

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJ: FOREX MARKET DEVELOPMENTS JAN 23-25

SUMMARY: YEN STRENGTHENED AND SPECULATION EASED FRI
AS MOF AND BOJ CRACK DOWN ON FOREX REG VIOLATIONS. THREE
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MAJOR BANKS SEVERELY PENALIZED. LOCAL PRESS REPORTS

FRBNY SUPPORT OF YEN ON WED JAN 23 BUT FINANCIAL CIRCLES NOTING LIMITED DEGREE OF NEW YORK INTERVENTION FEEL BASIC SITUATION REMAINS UNCHANGED. BOJ FOREX OFFICIAL CITES MARKET VIEWS THAT YEN LIKELY TO WEAKEN IN WEEKS AHEAD, PERHAPS TO 310/DOLLAR OR LOWER. DURING JAN AND FEB YEN IS SEASONALLY WEAK BECAUSE OF TRADE PATTERN.

1. ON JAN 24 AND 25 EASING OF PRESSURE ON YEN WAS CLEARLY INDICATED AS DOLLAR RATES FOR SAME DAY DELIVERY WERE QUOTED AT YEN296.50 PER DOLLAR COMPARED WITH WEDNESDAY'S RANGE OF YEN299.95-300.0 PER DOLLAR. SPOT RATE FOR SAME DAY DELIVERY DECLINED DUE TO "DUMPING" OF DOLLARS IN MARKET BY SPECULATORS, WHO HAD BOUGHT DOLLARS FOR OVERNIGHT DELIVERY AT YEN300.00 ON JAN 23 BUT COULD NOT PROCURE YEN FUNDS TO CONSUMMATE SUCH TRANSACTIONS ON FOLLOWING SETTLEMENT DAY. REPRESENTATIVE DOLLAR RATE FOR OVERNIGHT DELIVERY REMAINED AT YEN300.00 PER DOLLAR WITH HEAVY BOJ INTERVENTION BUT DROPPED TO YEN299.95 ON FRI WITH VIRTUALLY NO INTERVENTION. VOLUME IN SPOT MARKET \$966 MIL FOR THREE-DAY WEEK, WITH \$742 MIL TRADED WED, \$130 MIL THURS, AND DOWN TO \$94 MIL FRI.

2. FORWARD MARKET, DOLLAR ALSO WEAKENED FROM WED TO FRI BUT RATES WELL ABOVE A WEEK AGO. THREE-MONTH FORWARD CLOSED AT YEN317.00 WITH PREMIUM OF 22.74 PERCENT WHILE SIX-MONTH DELIVERY CLOSED YEN322.50 FOR PREMIUM 15.04 PERCENT. WEEK'S VOLUME WAS \$338 MIL IN FORWARDS AND \$92 MIL IN SWAPS.

3. ENGLISH PRESS CARRIED HEADLINE STORIES TODAY (JAN 25) ANNOUNCING GOJ CRACKDOWN ON BANKS WHICH REPORTEDLY MADE HUGE DOLLAR PURCHASES ON WED, JAN 23 PRIMARILY FOR SPECULATIVE PURPOSES. BANKS REPORTEDLY ACTING IN PART AS AGENTS FOR LARGE TRADING AND OIL COMPANIES IN PURCHASING DOLLARS PRIOR TO RECEIPT OF PROPER EXPORT (IMPORT) DOCUMENTATION AS REQUIRED BY GOJ FOREIGN EXCHANGE CONTROLS. ACCORDING TO MAINICHI DAILY, ONLY ABOUT ONE-HALF OF \$742 MIL TRADED WED IN SPOT TRANSACTIONS (FOR DELIVERY SAME DAY OR OVERNIGHT) WAS LIMITED OFFICIAL USE

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BELIEVED TO HAVE BEEN ATTRIBUTED TO IMMEDIATE DOLLAR NEEDS. OTHER HALF ASSUMED TO BE SPECULATIVE PURCHASES. TOTAL BOJ INTERVENTION IN SPOT MARKET ON JAN 23 WAS VERY HEAVY. BOTH MOF AND BOJ NOW INVOLVED IN EXTENSIVE EFFORT TO TRACE SOURCES OF SUBSTANTIAL YEN FUNDS WHICH FLOODED TOKYO FOREX MARKET JAN 23. LARGE AND SMALL COMMERCIAL BANKS, TRADING FIRMS AND OIL COMPANIES BEING INVESTIGATED FOR EVIDENCE OF POSSIBLE SPECULATIVE

TRADING ACTIVITY. THUS FAR THREE MAJOR COMMERCIAL BANKS (BANK OF TOKYO, DAI-ICHI KANGYO BANK, AND SUMITOMO BANK) HAVE BEEN CITED FOR SUCH ACTIVITY. AS RESULT, TOUGH DISCIPLINARY ACTION TAKEN BY BOJ IN FORM NON-RENEWAL AND THEREFORE IMMEDIATE REDUCTION OF OUTSTANDING BOJ LENDING IN AMOUNT OF YEN20 BIL FROM EACH OF THESE THREE BANKS. THIS AMOUNT REPRESENTS OVER 6.5 PERCENT OF TOTAL AVERAGE BORROWINGS OF THESE THREE BANKS ON LATEST STATEMENT DAY, I.E. SEP 30, 1973. SOURCES WITHIN TOKYO FINANCIAL COMMUNITY ALSO REPORT THAT MANY SMALLER BANKS, AS WELL AS CERTAIN FOREIGN BANKS OPERATING IN JAPAN, HAVE BEEN INVOLVED TO LESSER EXTENT IN SUCH SPECULATIVE TRADING AND HAVE BEEN SEVERELY WARNED BY CENTRAL BANK AUTHORITIES TO AVOID SUCH ACTIVITY.

4. LOCAL PRESS REPORTS MODEST FRBNY FOREX INTERVENTION TO SUPPORT YEN RATE ON WED JAN 23, CITING MOF SOURCES, THEN HAS LONG COMMENTARY ON SUCH TRANS-ACTIONS AND WAY IN WHICH US YEN HOLDINGS ARE EVENTUALLY SETTLED. ENGLISH LANGUAGE EDITION CONSIDERS REPAYMENT THROUGH IMF AS "NEW WAY FOR SETTLEMENT OF JAPAN'S DOLLAR CLAIMS" AND ENUMERATES SEVERAL ADVANTAGES TO JAPAN. SHOESMITH

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